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SUBJECT: ARGENTINA: BATTLE LINES DRAWN

REF: BUENOS AIRES 0943

Classified By: Ambassador E. Wayne for reasons 1.4 (b) and (d)

¶1. (C) Battle Lines Formed: The sides are drawn for battle in Argentina's agricultural dispute. Farmers and the government are calling followers together for a show of force in Buenos Aires on Tuesday July 15, the day before a decisive vote in the Senate on a bill to approve the government's agricultural export taxes (Reftel). Farmer groups say they will draw between 60,000 and 200,000 to their demonstration at a downtown park (in front of the Embassy and EMR), while press reports the pro-government organizers expect at least 50,000 in the plaza in front of the Congress. The government says it has a Senate majority secured for the Wednesday vote, but it continues to mount an all out effort in public and private to gather the votes and make sure they stick. Leading daily Clarin says that there are still seven votes in play, and the government needs at least three of those.

¶2. (SBU) Former President Nestor Kirchner has been leading pro-government forces with a series of public appearances, most recently with pro-government "social leaders" and intellectuals, and has continued his very tough rhetoric about the need to protect his wife from attempts to topple her. He is slated to be the main, and perhaps the only, speaker at the Tuesday pro-government rally.

¶3. (C) Securing the Senate Vote: Meanwhile, President Fernandez de Kirchner (CFK), her ministers and legislative allies continue to work to secure support from a majority of Senators. As they did in the earlier lower house chamber of deputies vote, the government is using a combination of sweeteners and threats. One key opposition legislator told the Ambassador that the vote in the chamber of deputies was down to a two-vote difference six hours before the vote on the government bill, but the government successfully used "logrolling" to win a seven-vote majority. The government is making clear that those deputies who voted against them will pay dearly, while it promises targeted benefits for Senators who sign up. Major newspapers have reported that the GOA has the firm support of 35 senators, with 30 opposed, and seven undecided. Special pressure, public and private, is being applied to Vice President Cobos who has shown independence and expressed support for alternatives to the government's bill over the past two weeks. VP Cobos, as president of the Senate, has a vote in the case of a tie. The head of the Kirchner (FPV) bloc in the Senate, Miguel Angel Pichetto, told the press that VP Cobos, if forced to break a tie, should vote for the government proposal or resign. (Allegedly, one of the reasons that CFK did not travel to Spain last week was that she did not want Cobos to be left in charge. Cobos has reportedly surged up in the polls since he began distancing himself from the government.)

14. (C) Farmers' Show of Force: The farmer groups called their rally for Tuesday in part because they felt the government had the momentum in the Senate and they wanted to demonstrate their political strength. They have been present in public debates in and outside of the Senate, but they are also straining to maintain unity and support from their base in the face of government efforts to divide and conquer. The opposition has been bolstered, however, by the increasing presence of senior Peronist politicians offering criticisms of the government and alternative visions of agricultural taxes. Particularly notable have been PJ Senator and former Santa Fe governor Reutemann, former President Duhalde and former Cordoba governor De La Sota. In addition, the main labor confederation, the CGT divided over the last week, as dissidents linked to former president Duhalde split away from newly reelected leader Moyano who is aligned with Nestor Kirchner.

15. (C) Government Splits: While the government has been able to maintain its public unity, in private the divisions and problems remain serious and go beyond the Vice President, the unions and the Peronist party. Rumors of cabinet moves and resignations are rife. While the government sent Internal Commerce Secretary Guillermo Moreno to the Senate last week to make a much criticized defense of the government's economic policies and inflation figures, we were told key figures in the government want him removed and a more defensible set of inflation policies adopted (septel). Similarly, while the government decided to move to force a takeover of ailing and possibly insolvent Spanish-owned flag air carrier Aerolineas Argentinas this week, we understand the government was sharply divided about whether to nationalize the airline and how to handle the matter with the Spanish government, which is under pressure to stand up for the current Spanish owners.

16. (C) Tension is High: There is much concern about what might happen in the streets on Tuesday. There is a lot of pent up tension, and Nestor Kirchner's decision to schedule a pro-government demonstration at the same time as the farm demonstration increased the risk of serious altercations. Many observers are worried what a stray spark might do. "This is very dangerous for the government to do. Things could really blow up. I am really worried," center-right daily La Nacion's premier columnist Morales Sola told the Ambassador July 11. The farmers are clearly hoping that a strong show of support will inspire the Senators to amend or reject the government's bill and, at a minimum, lay the ground work for whatever comes next if government bill passes. The government is clearly hoping that a Senate victory will take steam out of the rural protest. They are reportedly preparing a number of fiscal/tax measures aimed at rebuilding their domestic popularity, including pension increases and family allowances for workers. However, as many commentators note, ex-President Kirchner's "winner takes all" approach has alienated big chunks of society and hollowed-out the Peronist party's traditional supporters in rural areas. In addition, the government has not shown any willingness to tackle serious problems like inflation, which have many people worried, including in the pro-government unions.

17. (C) On the positive side, the fact that the government decided to send the tax issue to Congress is progress. As one Argentine businessman told the Ambassador this weekend, "we haven't seen a debate like this in Congress in my memory, and the government is really having to work to get majorities. Perhaps, we are giving birth to real democracy, and birth is usually painful." On the other hand, the government itself is very worried as to what the reaction might be even if they win the vote. As one Undersecretary told the Ambassador July 12, "I think we will get the votes. I just hope they (farmers and their middle class supporters) accept the Senate vote as legitimate. If they come out on the streets again, I don't know what might happen."

18. (C) Comment: We expect the government will win the Senate vote by plying "undecided" senators with pork barrel or other

incentives, as it did in the Chamber of Deputies. In the absence of any significant new concessions to aggrieved farmers, congressional approval of the agricultural export levies may well be a Pyrrhic victory. By obtaining legislative approval, the GOA will have blocked one possible line of judicial challenge. But farmers contend they can still challenge the new export duty rates for being "confiscatory," which is prohibited by the constitution.

WAYNE